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STATE OF MONTANA

LEGISLATIVE COUNCIL

REPORT ON EXAMINATION

Biennium Ended June 30, 1969

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STATE OF MONTANA
LEGISLATIVE COUNCIL
REPORT ON EXAMINATION
Biennium Ended June 30, 1969

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

STATE LEGISLATIVE COUNCIL

Council Members

Senate Members:

December 31,

Frank W. Hazelbaker, Chairman	Dillon	1970
LeRoy H. Anderson, Secretary	Conrad	1970
Mills Folsom	Missoula	1970
David F. James	Joplin	1970
Patrick J. Keenan	Anaconda	1970
Herbert J. Klindt	Billings	1970

House Members:

Francis Bardanouye, Vice Chairman	Harlem	1970
Matt A. Himsel	Kalispell	1970
Harold McGrath	Butte	1970
Miles Romney	Hamilton	1970
Scott B. Stratton	Great Falls	1970
Hubert E. Woodard	Billings	1970

Administrative Officials

William P. Mufich, Executive Director	Helena	(1)
Rose E. Weber, Administrative Assistant	Helena	
James W. Van Koten, Fiscal Analyst	Helena	

(1) Appointed March 1, 1970, to succeed Charles H. Mahoney who resigned on January 20, 1970. Mr. Mahoney succeeded Donald L. Sorte who resigned on August 20, 1969.

SUMMARY OF RECOMMENDATIONS

Page

Take a physical inventory of fixed assets, adjust control accounts, and establish a subsidiary ledger.	5
Maintain fixed asset control and detail ledgers on a current basis.	5
Make physical counts of equipment in the future on an annual basis.	5
Consider revising \$100 limitation rule on approvals of claims and requisitions.	6
Mark invoices to show they have been verified and submitted for payment.	6
Establish written agreements with bill drafters and provide supporting statements for claims for payments to bill drafters.	7
Establish formal sick leave and overtime policies.	8
Maintain employee attendance records and records on a current basis of employees' vacation, sick leave, and overtime.	9
The state controller disallow payment of claims beyond appropriated amounts.	10
Consider requesting future council operations be financed from single appropriations.	11
Consider initiating timekeeping and cost allocation system for individual studies and evaluations.	11



STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana Legislative Council as of June 30, 1969, and the related statements of operations, as set forth in the table of contents in this report, for the biennium then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared on the cash basis of accounting and do not show financial position as do statements prepared on the modified accrual basis in accordance with generally accepted accounting principles applicable to governmental units.

The council's fixed assets are not adequately accounted for. General ledger accounts reflect only the items purchased during the 1967-69 biennium and supporting subsidiary detail records are not maintained. Since no ledger account exists showing the cumulative total of items purchased, the \$9,544 balance reported in the financial statements was determined by reviewing property inventory reports submitted to the State Department of Administration for the past several years.

In our opinion, subject to the exceptions described in the preceding paragraphs, the accompanying financial statements present fairly the financial position of the Legislative Council as of June 30, 1969, and the results of its operations for the year then ended, in conformity with generally accepted governmental accounting principles applied on a basis consistent with that of the preceding year.

We submit the financial statements listed in the preceding table of contents together with the following comments.

COMMENTS

GENERAL

The Montana Legislative Council was created by the Legislative Assembly in 1957 as a permanent agency of the legislative branch of state government. The council was established to give between-sessions study to selected problems confronting the legislature, and to perform other services which facilitate the legislative process.

The council consists of six members of the House of Representatives appointed by the speaker, and six members of the Senate appointed by the committee on committees. The law requires that no more than three members of each house be of the same political party, so the membership of the council is bi-partisan.

The council breaks itself down into subcommittees and appoints other non-council member legislators to conduct its various studies. The council has a basic staff of five employees--executive director, administrative assistant, attorney-researcher (currently vacant), fiscal analyst, and secretary. The council also utilizes the services of university system and other state agencies' personnel. For legislative sessions, the council hires attorneys on a temporary basis and the staff devotes nearly its entire time to bill drafting.

The fiscal analyst is administratively under the council's executive director but his studies are more specific in nature than the more general council studies. The fiscal analyst makes studies relating to state finances and directs his reports to the Legislative Fiscal Review Committee. In addition, the fiscal analyst reviews and analyzes budget requests of state agencies.

The Legislative Fiscal Review Committee was created by the Legislative Assembly in 1969 for the study of state government fiscal matters.

The committee consists of four members of the House of Representatives appointed by the speaker and four members of the Senate appointed by the committee on committees. The law requires that no more than two members of each house be of the same political party.

The primary function of the committee is to accumulate, compile, analyze, and furnish such information bearing upon the financial matters of the state as the Legislative Assembly, or the committee by its own initiative, determines relevant to issues of policy and questions of state-wide importance. The fiscal analyst is assigned to the committee by the Legislative Council.

CONTROL OVER EQUIPMENT

The council needs to improve the control over its equipment. A sound basis of accounting for equipment and other fixed assets includes maintenance on a current basis of general ledger control accounts and a subsidiary detail ledger with periodical physical checks to verify the accuracy of the accounting records.

The council has general ledger control accounts but their balances reflect current biennium purchases only and the accounts are posted at yearend as opposed to when the transactions occur. The accounts should constitute running totals of the cost, or other assigned values, of all the council's fixed assets in order to establish accurate accountability on a timely basis of the property under the council's control.

The council does not maintain a subsidiary or detail ledger of its equipment items. There should be for each equipment item an individual record which sets forth at least the item's description, location, date of acquisition, and cost. The total of the cost on the individual records should equal at all times the balance of the general ledger control account and the equipment that is actually on hand.

Existing council procedures do not include a systematic physical count of the council's equipment. Counts should be made at least annually to verify that all recorded equipment items are on hand and the count should disclose any acquisitions that might have not been recorded.

RECOMMENDATION

We recommend that the council:

- 1. Take a complete physical inventory of its fixed assets, adjust the general ledger control accounts to agree with the physical count, and establish a subsidiary ledger comprising an individual record for each capital item.*
- 2. Maintain the control and detail ledgers for fixed assets on a current basis recording acquisitions and deletions as the transactions occur.*
- 3. Make physical counts of its equipment in the future at least on an annual basis and adjust the accounting records to agree with the counts securing the executive director's written approval of any writeoffs of capital items.*

Approval for Claims and Requisitions

The council's rules provide that claims and requisitions for up to \$100 and payrolls may be approved by the executive director but all other claims and requisitions must be approved by the chairman of the council. We believe the council should consider amending or deleting this rule. There were several instances noted where the executive director approved the claims during the biennium even though the amounts exceeded \$100. Some of these claims were for

airline tickets for which the trips had been approved in the council minutes. Some were for supplies for which the total order happened to exceed \$100. Others were for payments for bill drafting and stenographic services. We believe that if the council has established the policies under which the executive director is to administer the council's activities, the \$100 limitation on requisition and claim approvals does not add a significant control feature.

RECOMMENDATION

We recommend that the council consider revising its \$100 limitation rule on approvals of requisitions and claims to either increase the dollar limitation and eliminate the requirement for the chairman's approval for payment of billings for services already approved in the council minutes, or eliminate the rule altogether.

CANCELLATION OF PAID INVOICES

In reviewing the various invoices which were paid during the biennium, it was observed that there were no notations on the invoices indicating that they had been paid. By not notating on the invoices that they have been paid, there is always the possibility that an invoice could be resubmitted for payment at a later date.

RECOMMENDATION

We recommend that the council mark invoices to show that the invoices have been verified and approved, the date filed for payment, and the claim number on which it was submitted.

PAYMENTS FOR BILL DRAFTING SERVICES

Immediately prior to and during biennial legislative sessions, the council hires attorneys on a temporary basis to augment the council staff for drafting of legislative bills. For payment purposes, these attorneys have been determined to be independent contractors, as opposed to employees. The attorneys are not put on the payroll but their compensation is paid by regular claim with no amounts withheld.

Payments to the bill drafters for their services during the 1969 session were not supported by billings or written agreements with the attorneys. Claims were submitted with no supporting documents for varying amounts based upon verbal agreements. If the bill drafters are not to be considered employees, we believe there should be formal written agreements as to their duties and fees. Payments should then be supported by statements setting forth the services provided at rates in accordance with terms of the agreements.

Written agreements serve to reduce the possibility of misunderstanding and establish a formal basis for making payments. Statements in support of claims for payment are basic to indicate what services have been provided.

RECOMMENDATION

We recommend that agreements with non-employee bill drafters be in writing and that statements for services provided be supplied as support for claims for payments to bill drafters.

SICK LEAVE AND OVERTIME POLICY

In the absence of a statewide policy regarding the accumulation and time off for employees' sick leave and overtime, it is left up to each state agency

to establish its own policies concerning these matters. The council does not have established formal sick leave and overtime policies for its employees. Since the staff is relatively small, the practice has been for the executive director to give verbal approval for time off for sick leave and overtime based upon his general knowledge of the amount of time the employees have accumulated.

A standardized policy has the advantages of reducing the possibility of misunderstandings and promoting fairness to all employees. For example purposes, a fairly common policy among several state agencies is that employees are credited with one day of sick leave per month of state service and compensating time off for overtime is allowed for overtime actually worked. Such a policy allows the employees to know how much time they have available in case of illness or other need for time off and provides agency management with information to better plan its activities.

RECOMMENDATION

We recommend that the council establish formal policies for employees' sick leave and overtime accumulation and time off.

EMPLOYEE ATTENDANCE RECORDS

The council does not maintain records relating to employees' attendance or of their time off earned and taken for sick leave and overtime. The council does maintain a record of the employees' time off earned and taken for vacation, but it is not maintained on a current basis. The leave records for prior years are not retained, only the balance carried forward is shown on the current leave record. The maintenance of attendance records is basic as a support for payment of employees' salaries. The maintenance of records showing employees' vacation, sick leave, and overtime earned, time taken off, and balance on a current basis

is essential to readily determine that time taken off by an employee was earned.

RECOMMENDATION

We recommend that the council maintain employee attendance records and records on a current basis showing time off earned, taken, and the balance for employees' vacation, sick leave, and overtime.

APPROPRIATION CONTROL

As shown by Exhibit C, the council expended all but \$9 of its legislative research appropriation during the biennium ended June 30, 1969. It was noted, however, that several claims totaling approximately \$1,600 for services received during 1968-69 were paid from the council's 1969-70 appropriation. This is a situation we have noted and reported upon in several of our audits of state agencies. Section 59-701.2, R.C.M. 1947, provides that claims for one biennium can be paid from the succeeding biennium's appropriation only to the extent of the reverted balance of the preceding biennium appropriation.

Because of the prevalence of this deficiency in the state's appropriation control system, we have directed a letter to the state controller bringing this specific problem to his attention. The proper application of the accrual basis of accounting, which the Legislative Assembly has expressed its intent that the state adopt, will result in expenditures of a period being limited to amounts appropriated for that period. Until the accrual basis is implemented, tentatively scheduled for July 1, 1971, we believe the state controller should enforce the provisions of Section 59-701.2, R.C.M. 1947.

RECOMMENDATION

We recommend that the state controller revise the accounting division's claim processing procedures to disallow payment of claims exceeding the limits provided by Section 59-701.2, R.C.M. 1947.

ACCOUNTING SYSTEM

The council has four regularly recurring appropriations for council operations-- research, legislative services, fiscal analysis, and the dues to the Council of State Governments. Because of a lack of an employee time reporting system and other cost allocation information, records are not available to insure that expenditures are being charged to the correct appropriation in many instances. Appropriations are often charged on an arbitrary basis depending upon where the spending authority is available. We believe a more accurate presentation of the cost of these functions would result if the council worked from a single appropriation but with sub-accounting by program. This is the more common method employed in the state accounting system and allows more flexibility in charging expenditures to the function they benefit. This change would require the maintenance of more accurate records by the council staff but this is a standard procedure for many state agencies.

Other information the council staff could develop as a bi-product of a good time reporting and cost allocation system that we believe would be of interest to council members would be the development of the cost of the council's various research and fiscal analysis studies and evaluations. Such information would show the council members where their resources are being applied and provide a better basis for future council budget request presentations.

RECOMMENDATION

We recommend that the council consider:

1. Requesting that its 1971-73 and subsequent operations be financed from single biennial appropriations with program accounting to determine the accurate cost of its major functions.
2. Initiating an internal timekeeping and cost allocation system to determine the cost of individual studies and evaluations.

CONCLUSION

The comments and recommendations contained in this report have been discussed with the council chairman and staff. We wish to express our appreciation to them for their cooperation and assistance.

Respectfully submitted,

Morris L. Brusett

MORRIS L. BRUSSETT
Legislative Auditor

March 13, 1970

EXHIBIT A

LEGISLATIVE COUNCIL
ALL FUNDS
BALANCE SHEET
June 30, 1969

	<u>General</u> <u>Fund</u>	<u>General</u> <u>Fixed</u> <u>Assets</u>
<u>Assets</u>		
Encumbered Appropriation	\$ 635	\$ -0-
Equipment	<u>-0-</u>	<u>9,544</u>
Total Assets	<u>\$ 635</u>	<u>\$ 9,544</u>
<u>Reserves</u>		
Reserve for Encumbrances	\$ 635	\$ -0-
Reserve for Investment in General Fixed Assets	<u>-0-</u>	<u>9,544</u>
Total Reserves	<u>\$ 635</u>	<u>\$ 9,544</u>

LEGISLATIVE COUNCIL
GENERAL FUND
STATEMENT OF CHANGES IN FUND BALANCE
Biennium Ended June 30, 1969

Fund Balance, July 1, 1967 \$ -0-

Additions:

Reserve for Encumbrances, July 1, 1967	\$ 580
1967-69 Appropriations	<u>166,250</u>
Total Balance and Additions	166,830

Deductions:

Expenditures - Exhibit C	165,034
Reserve for Encumbrances, June 30, 1969	635
Appropriation Reversions	<u>1,161</u>
Fund Balance, June 30, 1969	\$ -0-

LEGISLATIVE COUNCILGENERAL FUND
STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH APPROPRIATIONS

Biennium Ended June 30, 1969

	Legislative Research	Legislative Services	Legislative Fiscal Analysis	Dues - Council of State Governments	Meeting Expense Western Conference of Council of State Governments	Total
Reserve for Encumbrances, July 1, 1967	\$ 580	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 580
1967-69 Appropriations	<u>97,500</u>	<u>18,500</u>	<u>36,000</u>	<u>9,250</u>	<u>5,000</u>	<u>166,250</u>
Total Available	98,080	18,500	36,000	9,250	5,000	166,830
Expenditures	97,436	18,498	36,000	9,250	3,850	165,034
Encumbrances	<u>635</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>635</u>
Balance Reverted	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,150</u>	<u>\$ 1,161</u>

Analysis of Expenditures

Personal Services:						
Salaries	\$ 49,354	\$ 9,530	\$ 26,620	\$ -0-	\$ -0-	\$ 85,504
Employee Benefits	<u>4,236</u>	<u>811</u>	<u>2,135</u>	<u>-0-</u>	<u>-0-</u>	<u>7,182</u>
Total Personal Services	<u>53,590</u>	<u>10,341</u>	<u>28,755</u>	<u>-0-</u>	<u>-0-</u>	<u>92,686</u>

Operation:

Office Supplies & Printing	9,294	489	285	-0-	-0-	10,068
Telephone	2,162	194	-0-	-0-	-0-	2,356
Postage	1,194	-0-	278	-0-	-0-	1,472
Travel - In State	17,412	-0-	3,300	-0-	1,925	22,637
Out of State	4,422	-0-	549	-0-	-0-	4,971
Consultants and Special Fees	1,508	6,786	857	-0-	1,925	11,076
Dues and Subscriptions	468	-0-	20	9,250	-0-	9,738
Rentals	5,246	628	1,370	-0-	-0-	7,244
Repairs and Maintenance	236	-0-	8	-0-	-0-	244
Other	62	-0-	-0-	-0-	-0-	62
Total Operation	<u>42,004</u>	<u>8,097</u>	<u>6,667</u>	<u>9,250</u>	<u>3,850</u>	<u>69,868</u>

Equipment and Books	1,842	60	578	-0-	-0-	2,480
Total Expenditures	<u>\$ 97,436</u>	<u>\$ 18,498</u>	<u>\$ 36,000</u>	<u>\$ 9,250</u>	<u>\$ 3,850</u>	<u>\$ 165,034</u>

LEGISLATIVE COUNCIL
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
Biennium Ended June 30, 1969

	<u>Literary and Reference Books</u>	<u>Furniture and Fixtures</u>	<u>Office Equipment</u>	<u>Total</u>
Balance, July 1, 1967	\$ 1,352	\$ 2,516	\$ 3,477	\$ 7,345
Additions:				
1967-69 Purchases	<u>876</u>	<u>884</u>	<u>720</u>	<u>2,480</u>
Total Balance and Additions	2,228	3,400	4,197	9,825
Deductions:				
Equipment Sold	<u>-0-</u>	<u>-0-</u>	<u>281</u>	<u>281</u>
Balance, June 30, 1969	<u>\$ 2,228</u>	<u>\$ 3,400</u>	<u>\$ 3,916</u>	<u>\$ 9,544</u>

